

Financial Services Committee Hearing Highlights Monetary Policy and the State of the Economy

February 27, 2008

Media contact: Rebecca Dreilinger 202-225-8203

FOR IMMEDIATE RELEASE

(Washington DC) In today's full committee hearing of the Financial Services Committee, Federal Reserve Chairman Bernanke appeared to give his biannual report on the nation's monetary policy, as well as the state of the U.S. economy. Reflecting concerns regarding the credit crunch that started in the home mortgage industry, and which has spread to other areas of the economy, Congressman Luis V. Gutierrez (D-Ill.), chairman of the Subcommittee on Domestic and International Monetary Policy, Trade and Technology, made the following statement:

"Economists and arm-chair economists can argue whether or not we are in the midst of a recession or teetering on the edge of a recession. What is clear is that – from top to bottom – our economy is struggling. Real GDP growth slowed sharply in the last quarter of 2007, and the economy appears to be contracting this year. The job market has stalled, manufacturing activity has weakened and retailers are under pressure.

"Making matters worse, the banking system and the credit and equity markets have been

unable to find their footing. Without a healthy financial system, any recovery in the U.S. economy will be weak, at best.

"The fundamental source of our economic problems is the unprecedented housing downturn and dramatic increase in mortgage loan defaults and foreclosures. But the unraveling of the mortgage markets undermined the global financial system in ways that few expected. Now these stresses are exposing more weak spots in the financial system almost on a weekly basis.

"Although the housing downturn is primarily responsible for our current situation, I believe that the failure of policymakers, including Congress and the Federal Reserve Board, to act quickly enough in response, is also to blame. Chairman Frank deserves credit for being ahead of the curve on housing legislation to address the crisis, but Congress as a whole did not act swiftly enough, and the White House was certainly a late arrival.

"Now, given the murkiness of the global financial system, it is not completely clear who are the most at risk and, as a result, the credit and equity markets remain on edge.

"Therefore, I think the current situation calls for an even more aggressive policy response by Congress, the Executive branch and the Federal Reserve; a response that is targeted primarily at the housing and mortgage markets. Whether the answer is a to allow bankruptcy judges more flexibility in Chapter 13 filings, or expanding the freeze on interest rates or on foreclosures, or creating a taxpayer financed fund to buy-up mortgage loans and securities, or a combination of these ideas. I believe we need to act quickly and aggressively and I would like to hear Chairman Bernanke's thoughts on these ideas, as well as whether he sees the Board continuing to act aggressively on monetary policy to stem or shorten a recession, or whether the focus will shift to inflation.

"I applaud Congress for moving faster on a second stimulus package, but longer term, I believe we need to take a hard look at our regulatory regime and consider streamlining the current scheme to eliminate overlapping roles and jurisdictions and re-focus our regulators. We can deliver safety and soundness without unduly restricting credit and the current situation highlights just how important it is that we all work together to get it right."

###

